



eSpeed and TradeWeb win bond poll

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Charles Piggott analyses the results of The Banker's survey of up and coming electronic trading systems for bonds.

In May and June The Banker asked trading desks at leading banks, investment firms, insurance companies and other financial institutions to rate the electron they use to trade fixed income securities. Traders were asked to rate each system out of 10 for the following: overall ease of use and site design; access to breadth of debt products traded; access to new issues; access to a wide range of market makers and underwriters; neutrality and independence of management; transparent multiple-price discovery; speed of response and efficiency of execution; efficient straight through processing and back office settlement; ability to t deals at any size; the reliability of website; and the overall quality of service.

In total, 40 institutions responded to the poll and a total of 109 opinions on individual trading systems were given. Systems that were rated by less than three t included. The results are not weighted to take account of the number of ratings they received from traders. The final results published represent the average s for each category. The overall ranking is based on the average scores across all criteria.

In the past three years, the number of electronic trading systems covering the bond markets has mushroomed from around 12 to more than 80. If you include own websites, the number rises to more than 300. But the verdict on which systems will eventually dominate the expanding electronic market place for bonds consigned to the technological dustbin of history has yet to come.

Rating diverse trading platforms poses a challenge. Systems range from online auction systems, cross-matching systems, inter-dealer platforms, multi-dealer trading systems that cover financial markets ranging from those in US Treasury bills and European government bonds to corporate and municipal credit.

Because niche systems often offer different services to various sectors of the market, comparing them can be difficult. Partly to solve this problem The Banke platforms from the others.

Three platforms loom large over the inter-dealer market: eSpeed, BrokerTec and EuroMTS. Daily trading volumes on these sites are already measured in billi billions of dollars or euros. Many of the bond desks polled by The Banker in May and June used all three inter-dealer systems in addition to several niche syst allow them to trade directly with investors or deal in more specialised and less liquid markets. Sophisticated players often integrate information and trading ca other electronic networks into their own custom-designed trading interfaces.

eSpeed comes out tops

Our poll of 40 trading desks in Europe and the US gives the crown to eSpeed, followed closely by BrokerTec and then EuroMTS. Even though eSpeed comes some interesting things to note. For example although EuroMTS ranks third in the inter-dealer category, traders rate the system on a par with eSpeed for liqui

One surprise is the fact that although traders applauded BrokerTec's processing capabilities, the system scored less than five out of 10 for liquidity, by far the main inter-dealer bond trading platforms. In terms of efficient straight-through-processing, however, the majority of traders gave BrokerTec full marks for its se power.

TradeWeb out in front

Outside the inter-dealer trading community, the largest US online platform for bond trading, TradeWeb, is the market leader and the most ubiquitous. Most inv system and, although some traders argue that dealer-to-client systems have had less impact than inter-dealer systems in changing the way the market operat the significant role played by TradeWeb in the development of an electronic bond marketplace accessible directly by investors.

TradeWeb is the poll's clearest winner, gaining the highest average score of any system in the poll. Although the site, which traded more than \$770bn in US T T quarter of 2001, scored poorly on new issues, it received some of the highest scores for liquidity, access to market makers, independent and neutral managem speed.

Although other systems were highly ranked, none of them appear as widely used as TradeWeb. Comparisons between other dealer-to-investor systems are c varying functions they perform. For example, although Bond.Hub is not strictly a trading system but an online research and information tool, it was rated highly and therefore included in the results. Willie Brown, who manages a fixed-income arbitrage fund for American Express, says: "What makes this site so powerfu customise research and regression analysis with data from leading players." In fact, Bond.Hub scored full marks from every respondent for its research functio

The only other platform to be awarded a 10 in any category from its users is eBondTrade. ebondTrade users gave the system full marks for speed of respons execution.

Like many systems that have gained critical mass in the US, TradeWeb and Market Axess are now expanding their European operations. Many European traders polled were waiting for systems used by their US colleagues to be installed in the coming weeks and months. Although Market Axess, supported by several leading bond houses, ranks in our top 10 dealer-to-investor trading systems, some traders marked it down for being too complicated to use. One Wall Street bond trading chief at a bank that has invested in Market Axess says: "My biggest complaint is that the system is cumbersome. There are too many steps that have to be completed and this slows down trading. When we are really busy, this is very annoying."

Market Axess is not the only system criticised by traders for being difficult to use. A trader at one of the large Swiss banks speaking about all systems in general says: "The range of investments is generally good, but the trouble is in finding them on the system."

Other repeated criticisms were the fact that most trading systems, apart from those that specialise in new issue syndication, are still too slow to respond to new issues in the market. Similarly, coverage of the corporate credit markets is generally considered poor. While electronic networks have made inroads into liquid fixed-income markets such as government, agency and municipal bonds, they have yet to play much of a role in the corporate credit markets. A credit corporate bond trader at a US investment bank comments: "We try to use the main trading systems, but liquidity is no good, transparency is not up to much. Perhaps there will be an electronic market for corporate credit in six months or a year."

Who benefits?

Another worry for investors is that because brokers and bank consortia own many of the bond-trading platforms, they may not be run for the benefit of investors. Online bond trading ventures owned by bank consortia have already attracted the attention of US Department Justice officials investigating anti-competitive practices. One trader at a leading European fund management firm says: "These ventures generally have their own agendas that do not necessarily reflect their users or the market."

For every convert to electronic trading, there are traders who dislike, distrust and denigrate the electronic trading revolution. Says one trader describing a platform in which his bank is a joint-venture partner: "There is already too much on our screens. We quote prices on the system, but only because we have to

The top eight electronic trading systems...

1. eSpeed

eSpeed, the 24-hour electronic trading platform run by Cantor Fitzgerald, was spun off from its parent in March 1999. Users can trade in a wide range of instruments, ranging from US Treasury bills, non-US government bonds, Eurobonds, corporate bonds, agency securities, emerging market bonds, municipal securities and European and other repo agreements. eSpeed's total electronic volume in the first quarter of 2001 was \$11,500bn, an increase of 64% over the prior year, with more than one million transactions. The company is based in New York.

www.espeed.com

2. BrokerTec Global

BrokerTec Global is a fully electronic inter-dealer trading system set up by 12 leading bond houses and is based in New Jersey in the US. The shareholders now include ABN Amro, Banco Santander, Barclays Capital, CS First Boston, Deutsche Bank Securities, Dresdner Bank, Goldman Sachs, Greenwich Capital Markets, JP Morgan Chase, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter, Salomon Smith Barney and UBS Warburg. The systems cover both the US and European fixed-income markets. BrokerTec began its commercial operations in June 2000 starting with US Treasury bills, notes, bonds, strips, agency debt and European government bonds. Other instruments have since been added, and BrokerTec is gearing up to allow trading of US T-bill futures.

www.btec.com

3. EuroMTS

EuroMTS was launched in 1999 as a pan-European electronic trading system for euro-denominated government bonds. Other divisions of EuroMTS offer trading in non-government issues, for example German Pfandbriefe and French Obligations Foncières. Trading is anonymous and participants are notified of trading counterparties only after each trade has been executed. The 25 shareholders include ABN Amro, Dresdner Bank, Banca Commerciale Italiana, Goldman Sachs International, Banca di Roma and ING Bank.

www.euromts-ltd.com

4. TheMuniCenter

TheMuniCenter is an anonymous, fixed-income trading system that went live in July 1999. More than 4000 traders and salespeople in over 400 firms use the system which acts as a counterparty for inter-dealer brokers and institutions. TheMuniCenter was founded by Merrill Lynch, Morgan Stanley Dean Witter, Salomon Smith Barney and Chapdelaine. TheMuniCenter is headquartered in New York and is expanding the range of fixed-income securities traded on its system from municipal bonds to include government bonds, agency debt and corporate debt.

www.TheMuniCenter.com

5. ETC (Garban Intercapital)

Garban-Intercapital has long been a leading voice-based securities, derivatives and money broker, with daily transaction volumes in excess of \$200bn. In February 2000, Garban-Intercapital introduced an electronic trading interface ETC to cover US Treasury bills. The ETC platform (which stands for Electronic Trading Community) allows traders at major banks and investment houses to trade initially in US Treasuries over a private extranet or the internet. In September 2000, electronic trading reached \$90bn, with more than 7600 transactions. The application was written in Sun Microsystems' Java, which allows users to bring the functions of a broker terminal to their desktop regardless of the software platform they use. ETC is rolling out platforms to cover other fixed-income, derivatives and money market instruments.

www.garban-intercapital.com

6. Instinet Fixed Income Markets

Instinet is owned by Reuters and offers trading in US and European government debt as part of a wider service that also includes equity trading. Trading is anonymous at all times and Instinet acts as a trading counterparty in all transactions. The New York-based company claims to have pioneered electronic share trading more than 30 years ago.

www.instinet.com

7. Eurex Bonds

Eurex Bonds is part of the European derivatives exchange Eurex, based in Frankfurt. Eurex Bonds hopes to combine cash trading with the derivatives markets. The system offers cash trading in fixed-income securities issued by the German Federal Government or the Treuhandanstalt. Eurex Bonds is a joint venture of major players in the German and global bond and derivatives markets. Investors include ABN Amro, Banco Bilbao Vizcaya Argentaria, Barclays Capital, BNP Paribas, Caboto, Commerzbank, Credit Suisse First Boston, Deutsche Bank, Dresdner Bank, Eurex and Goldman Sachs.

www.eurexchange.com

8. TradeWeb

TradeWeb launched as an online electronic trading system in January 1998. The system allows investors to buy and sell US Treasury and federal agency securities electronically directly from multiple primary dealers. Although TradeWeb's headquarters are in New York, the company has also launched European operations to offer trading in the largest, most liquid euro-denominated government bonds. TradeWeb is available through the internet and on the Bridge Telerate private network. TradeWeb allows customers simultaneously to solicit multiple dealer participants to provide bids and offers for a specific security in which they have an interest. Transactions can be executed for as little as the minimum denomination of a particular security, or up to several hundred million dollars.

www.tradeweb.com

... and the rest of the runners

9. Bond.hub

New York-based Bond.hub is part of the securities.hub consortium backed by Goldman Sachs, JP Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley Dean Witter and Salomon Smith Barney. The site gives users access to proprietary research and prices from market makers in a wide range of fixed-income markets. With one password, users can access information from several market participants. Although the site does not allow users to trade electronically, the system has become a useful trading tool for institutional investors.

www.bond.hub.com

10. eBondTrade

eBondTrade, which is based in Walnut Creek, California, acts as a municipal securities broker/dealer site that provides online access to investment grade US municipal securities to both retail and institutional investors. eBondTrade uses a secure, internet-based system that allows investors to trade municipal securities. The minimum transaction size is \$25,000. eBondTrade also offers investors online access to new municipal bond issues.

www.ebondtrade.com

11. BondHub

Seattle-based BondHub is an open electronic exchange for trading municipal, corporate and mortgage-backed securities, which launched in February. The system allows qualified brokers, small money managers, small institutions and also broker-dealers to post executable offers, bid wanteds and inquiries through a secure internet-based trading system on an anonymous basis. BondHub investors include senior managers and executives at Microsoft.

www.bondhub.com

12. Bondbook

Launched in May 2001, BondBook offers online trading in investment-grade and high-yield corporate bonds and municipal bonds. The New York-based company is a joint venture between Goldman Sachs, Merrill Lynch, Morgan Stanley Dean Witter, Salomon Smith Barney, Deutsche Bank, Credit Suisse First Boston, Lehman Brothers and UBS Warburg. BondBook's trading system allows anonymous, direct trading between institutional market participants.

www.bondbook.com

13. Visible Markets

Launched in June 2000, Boston-based Visible Markets has been backed by US venture capital firm Greylock Management Corporation, State Street and eSpeed among others. The system is an internet browser-based auction marketplace that specialises in less liquid bonds such as mortgage- and asset-backed securities including corporate bonds and commercial mortgage-backed securities. Within five months of the company's trading launch, more than \$1b in bonds had been traded online.

www.visiblemarkets.com

14. BondDesk.com

BondDesk.com is the result of last year's merger of MuniGroup.com and BondDesk. The company is based in Mill Valley, California. Its founding partners include BondExchange, Goldman Sachs, PaineWebber, Bear Stearns and Spear. Through BondDesk, participating firms can display and match competing live and executable bids for a variety of fixed-income products, including Treasury, federal agency, investment-grade corporate, high-yield corporate, municipal and mortgage-backed securities, pass-throughs and collateralised mortgage obligations. Also, certain unit investment trusts and money market instruments are tradeable through the system.

www.bonddesk.com

15. Market Axess

New York-based Market Axess is a multi-dealer trading joint venture involving ABN Amro, Bear Stearns, Credit Suisse First Boston, Deutsche Bank, JP Morgan Chase, Lehman Brothers and UBS Warburg. The system boasts 500 institutional investor users and access to more than 40,000 research reports. Market Axess' target markets include US and European high grade corporate, high yield, emerging market, agency and municipal debt. Following its September 2000 launch, Market Axess is now expanding its operations outside the US. At the end of January, Market Axess bought Trading Edge which owns the BondLink anonymous trading system for fixed-income securities.

www.marketaxess.com

16. Bloomberg BondTrader

Bloomberg BondTrader is part of the Bloomberg Electronic Trading System and has been operational since March 1999. This New York-based electronic trading division of Bloomberg operates a multi-dealer electronic trading system that began with US Treasury securities but which has been expanded to include non-dollar government bonds and US government agencies. Investors submit orders or price inquiries that can then be accepted by dealers on the system. BondTrader is included as part of the basic Bloomberg subscription, but investors must be approved by participating dealers before they can trade on the system.

www.bloomberg.com

17. BondClick

BondClick is a multi-dealer online trading platform specifically designed for institutional investors offering trading in 200 Euro government bonds. BondClick was suspended in late May 2001 following a merger with BondVision, a division of MTS.

www.bondclick.com

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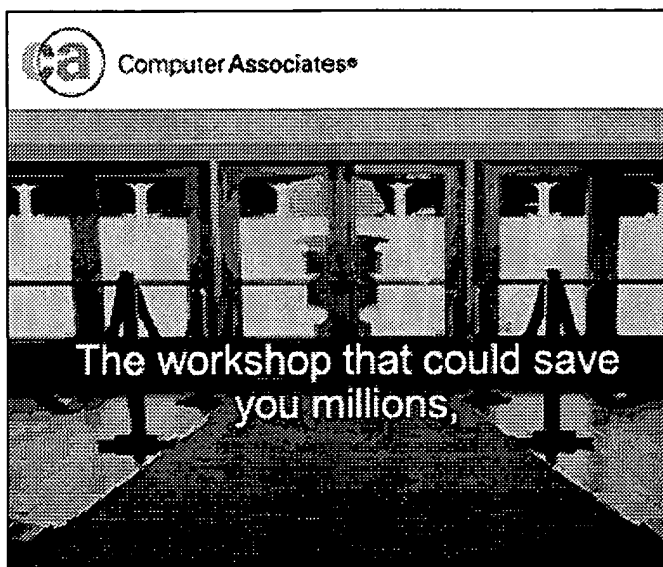
[Back to Article](#)

Six Securities Firms Team Up for Web Portal

By
March 13, 2000

Six leading Wall Street firms and Communicator Inc. said Monday they formed an electronic commerce venture that links brokerage firms to offer bond quotes and research to institutional investors worldwide.

Securities.Hub, the name of the e-commerce venture, expands upon the "Bond.Hub" Internet portal started last December by Communicator Inc. for Goldman Sachs Group Inc., Morgan Stanley Dean Witter & Co., and Citigroup Inc.'s Salomon Smith Barney.



Securities.Hub adds Lehman Brothers Holdings Inc, J.P. Morgan & Co. Inc. and Merrill Lynch and Co. Inc. to the original participants on Bond.Hub as equal equity owners.

Communicator will incorporate the Bond.Hub product within Securities.Hub, which will offer additional online marketplaces for corporations and institutions within the capital markets arena.

On a daily basis, the three firms presently participating in Bond.Hub post price indications on more than \$10 billion in fixed income securities, a figure that will significantly increase with the addition of J.P. Morgan, Lehman Brothers and Merrill Lynch.

The addition of J.P. Morgan, Lehman Brothers and Merrill Lynch is expected to increase the number of institutional customers with access to Bond.Hub from 8,000 presently to more than 12,000.

The brokerages will own a majority interest in Securities.Hub, while Communicator Inc. will provide the infrastructure, operate the business and own a minority stake.

The next addition to Securities.Hub will be the listing of new issue debt securities and ready access to online sites of underwriting firms.

Communicator Inc., which builds "Hubs" for leading companies in vertical industries, will operate and expand the number of portals within Securities.Hub under a service contract.

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